

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

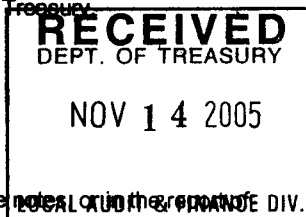
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Cadillac-Wexford Transit Authority	County Wexford
Audit Date 9/30/05	Opinion Date 10/12/05	Date Accountant Report Submitted to State: 11/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes to the financial statements, comments and recommendations.



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street		City Cadillac	State MI
		ZIP 49601	
Accountant Signature 		Date 11-10-05	

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SEPTEMBER 30, 2005

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October 12, 2005

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cadillac-Wexford Transit Authority
Cadillac, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Cadillac-Wexford Transit Authority, a component unit of Wexford County, as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Cadillac-Wexford Transit Authority, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cadillac-Wexford Transit Authority, Cadillac, Michigan basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Cadillac-Wexford Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CADILLAC-WEXFORD TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2005. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2005, by \$1,486,658. Of this amount, \$451,890 represents net assets which are not invested in capital assets.
- The Authority's total net assets decreased by \$213,613.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Financial Analysis

For the year ended September 30, 2005, assets exceeded liabilities by \$1,486,658. Transit is a capital-intensive enterprise, and approximately 69.60% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

CADILLAC-WEXFORD TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Summary Statement of Net Assets

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets	\$ 596,103	\$ 646,816
Capital Assets (Net)	1,034,768	1,166,087
Total Assets	<u>\$ 1,630,871</u>	<u>\$ 1,812,903</u>
Liabilities:		
Current Liabilities	\$ 144,213	\$ 112,632
Net Assets:		
Invested in Capital Assets	1,034,768	1,166,087
Unrestricted	<u>451,890</u>	<u>534,184</u>
Total Liabilities and Net Assets	<u>\$ 1,630,871</u>	<u>\$ 1,812,903</u>

The Authority's net assets decreased by \$213,613 in 2005. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets which show how the \$213,613 decrease in net assets occurred. Also shown is the change for the year ended September 30, 2004.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Operating Revenue	\$ 247,557	\$ 250,866
Operating Expenses	<u>1,607,450</u>	<u>1,512,513</u>
Operating Loss	<u>\$ (1,359,893)</u>	<u>\$ (1,261,647)</u>
Taxes	\$ 312,314	\$ 288,361
Other Nonoperating Revenue	738,136	713,100
Total Nonoperating Revenue	<u>\$ 1,050,450</u>	<u>\$ 1,001,461</u>
Net Income (Loss)	(309,443)	(260,186)
Capital Grants	<u>95,830</u>	<u>63,968</u>
Change in Net Assets	<u>\$ (213,613)</u>	<u>\$ (196,218)</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Operating Revenues

The following table shows 2005 revenue compared to 2004:

<u>REVENUES</u>	<u>2005 AMOUNT</u>	<u>2005 PERCENT OF TOTAL</u>		<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>		<u>INCREASE (DECREASE) FROM 2004</u>
Operating Revenue	\$ 247,557	19.07	%	\$ 250,866	20.03	%	\$ (3,309)
Interest Income	2,930	0.23		4,027	0.32		(1,097)
Property Tax	312,314	24.06		288,361	23.03		23,953
Federal Assistance	176,390	13.59		145,773	11.64		30,617
State Assistance	558,416	43.02		544,031	43.44		14,385
Gain on Sale of Assets	400	0.03		19,269	1.54		(18,869)
Total Revenue	<u>\$ 1,298,007</u>	<u>100.00</u>	<u>%</u>	<u>\$ 1,252,327</u>	<u>100.00</u>	<u>%</u>	<u>\$ 45,680</u>
<u>CAPITAL CONTRIBUTIONS</u>							
Federal	\$ 76,664	80.00	%	\$ 38,607	60.35	%	\$ 38,057
State	<u>19,166</u>	<u>20.00</u>		<u>25,361</u>	<u>39.65</u>		<u>(6,195)</u>
	<u>\$ 95,830</u>	<u>100.00</u>	<u>%</u>	<u>\$ 63,968</u>	<u>100.00</u>	<u>%</u>	<u>\$ 31,862</u>

The federal reimbursement rate increased to 12.40% from 10.95% for eligible expenditures. The State reimbursement rate, however, dropped from 42.236619648% to 38.437574823%. The actual State operating assistance revenue did increase for fiscal year 2004-05, however, this was due to settling prior year audits with the State. Fiscal years ending September 30, 2000, and September 30, 2001, both resulted in the Authority being reimbursed a larger than anticipated amount.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

CADILLAC-WEXFORD TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

The following table shows the expenses for 2005 compared to 2004 by department:

<u>DEPARTMENT</u>	<u>2005 AMOUNT</u>	<u>2005 PERCENT OF TOTAL</u>		<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>		<u>INCREASE (DECREASE) FROM 2004</u>
Operations	\$ 859,032	53.44	%	\$ 818,272	54.10	%	\$ 40,760
Maintenance	227,888	14.18		211,604	13.99		16,284
Administration	288,755	17.96		252,632	16.70		36,123
Depreciation	231,775	14.42		230,005	15.21		1,770
Total Expenses	\$ <u>1,607,450</u>	<u>100.00</u>	%	\$ <u>1,512,513</u>	<u>100.00</u>	%	\$ <u>94,937</u>

- Operations increased because wages were up. Fuel costs have continued to rise which also contributed to the increase.
- Maintenance costs increased in large part due to upkeep needed to keep the Authority's busses in good repair.
- Administration costs increased because wages and professional services were up.

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2005 compared to 2004 by object:

<u>OBJECT</u>	<u>2005 AMOUNT</u>	<u>2005 PERCENT OF TOTAL</u>		<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>		<u>INCREASE (DECREASE) FROM 2004</u>
Wages and Benefits	\$ 1,013,666	63.06	%	\$ 910,577	60.20	%	\$ 103,089
Services	75,847	4.72		87,980	5.82		(12,133)
Supplies and Materials	182,130	11.33		160,371	10.60		21,759
Utilities	27,368	1.70		25,516	1.69		1,852
Casualty and Liability	64,200	3.99		82,418	5.45		(18,218)
Miscellaneous	12,464	0.78		15,646	1.03		(3,182)
Depreciation	231,775	14.42		230,005	15.21		1,770
Total	\$ <u>1,607,450</u>	<u>100.00</u>	%	\$ <u>1,512,513</u>	<u>100.00</u>	%	\$ <u>94,937</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

- Wages and benefits increased as a result of higher wage and benefit rates and more drivers and dispatchers during 2005.
- Services expenses decreased due mainly to decreased spending on maintenance and repairs and on professional fees.
- Supplies expense increased as more was spent on fuel and on tire and operating supplies this year.
- Casualty and liability costs decreased due to a change in insurance carriers. The Authority now participates with the Michigan Transit Pool.

Capital Assets

The Authority's investment in capital assets as of September 30, 2005, amounted to \$1,034,768 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2005 included the following:

- Bus (\$96,050).
- Computer equipment (\$3,798).

Additional information on the Authority's capital assets can be found in the notes to the financial statements.

Economic Factors and Future Outlook

At the time these financial statements were prepared and audited, the Authority was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.
- As with other employers, the Authority continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.
- The employee contract was negotiated and approved. The contract expires December 31, 2007.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Cadillac-Wexford Transit Authority, 1202 N. Mitchell Street, Cadillac, Michigan 49601.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS

SEPTEMBER 30,

	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 202,803	\$ 379,734
Accounts Receivable	16,885	18,626
Prepaid Expense	29,081	31,183
Accrued Interest Receivable	32	115
Due From Other Governments	347,302	168,158
Land Contract Receivable	0	49,000
Total Current Assets	\$ 596,103	\$ 646,816
<u>PROPERTY AND EQUIPMENT</u>		
Land and Building	\$ 1,028,580	\$ 1,028,580
Buses	1,429,531	1,390,913
Other Vehicles	45,439	45,439
Bus and Garage Equipment	150,072	149,810
Office Equipment	68,764	64,620
Less Accumulated Depreciation	\$ 2,722,386 (1,687,618)	\$ 2,679,362 (1,513,275)
Net Property and Equipment	\$ 1,034,768	\$ 1,166,087
TOTAL ASSETS	\$ 1,630,871	\$ 1,812,903

The accompanying notes are an integral part of these financial statements.

	2005	2004
<u>LIABILITIES</u>		
Accounts Payable	\$ 37,381	\$ 26,391
Accrued Liabilities		
Payroll Withholdings	1,859	1,709
Salaries and Wages	30,348	23,701
Compensated Absences	74,625	60,831
Total Liabilities	\$ 144,213	\$ 112,632
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 1,034,768	\$ 1,166,087
Unrestricted	451,890	534,184
Total Net Assets	\$ 1,486,658	\$ 1,700,271
TOTAL LIABILITIES AND NET ASSETS	\$ 1,630,871	\$ 1,812,903

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>	\$ 247,557	\$ 250,866
<u>OPERATING EXPENSES</u>	<u>1,607,450</u>	<u>1,512,513</u>
Operating Income (Loss)	\$ (1,359,893)	\$ (1,261,647)
<u>NONOPERATING REVENUES</u>	<u>1,050,450</u>	<u>1,001,461</u>
Income (Loss) before Capital Contributions	\$ (309,443)	\$ (260,186)
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	\$ 76,664	\$ 38,607
State of Michigan	<u>19,166</u>	<u>25,361</u>
Total Capital Contributions	\$ 95,830	\$ 63,968
Change in Net Assets	\$ (213,613)	\$ (196,218)
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>1,700,271</u>	<u>1,896,489</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 1,486,658</u>	<u>\$ 1,700,271</u>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2005</u>	<u>2004</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 249,298	\$ 247,478
Cash Payments to Suppliers for Goods and Services	(658,035)	(617,705)
Cash Payments to Employees for Services	(683,957)	(632,934)
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,092,694)</u>	<u>\$ (1,003,161)</u>
Cash Flows from Noncapital Financing Activities:		
Tax Levy Proceeds	\$ 312,314	\$ 288,361
State Operating Grants Received	434,076	488,206
Federal Operating Grants Received	117,052	117,195
Net Cash Provided by Noncapital Financing Activities	<u>\$ 863,442</u>	<u>\$ 893,762</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (100,456)	\$ (66,005)
Capital Grants Received	100,364	63,109
Proceeds from the Sale of Assets	49,400	939
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>\$ 49,308</u>	<u>\$ (1,957)</u>
Cash Flows from Investing Activities:		
Interest Received	<u>\$ 3,013</u>	<u>\$ 4,185</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (176,931)</u>	<u>\$ (107,171)</u>
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>379,734</u>	<u>486,905</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 202,803</u>	<u>\$ 379,734</u>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2005</u>	<u>2004</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (1,359,893)</u>	<u>\$ (1,261,647)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 231,775	\$ 230,005
(Increase) Decrease in Current Assets		
Accounts Receivable	1,741	(3,388)
Prepaid Expense	2,102	11,800
Increase (Decrease) in Current Liabilities		
Accounts Payable	10,990	11,568
Accrued Liabilities	<u>20,591</u>	<u>8,501</u>
Total Adjustments	<u>\$ 267,199</u>	<u>\$ 258,486</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (1,092,694)</u></u>	<u><u>\$ (1,003,161)</u></u>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Cadillac-Wexford Transit Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

On June 23, 1981, the City of Cadillac and the County of Wexford created the Cadillac-Wexford Transit Authority, a separate legal and administrative unit of government pursuant to the Urban Cooperation Act. The purpose of the Authority is to provide public transportation services to the general public within Wexford County. The Authority began to provide transportation services on September 1, 1982. The Transit Authority is financed by state and federal subsidies as well as a county-wide property tax levy.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

When both restricted and unrestricted resources are available for use, it is the Authority's policy use the restricted resources first, then unrestricted resources as they are needed.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Authority's investment policy is in compliance with state law and authorizes the Authority to invest in investments authorized by Act 20 of the Public Acts of Michigan of 1943, as amended, provided however, any investment in mutual funds authorized by Act 20 shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Capital Assets and Depreciation

Capital assets are stated at cost. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by an Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

3. Inventory and Prepaid Items

The Authority does not maintain a fuel inventory. Supply inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

4. Compensated Absences

The Authority accrues sick and vacation benefits in the period they are earned. Vacation leave is earned in varying amounts depending on the number of years of service of an employee. At September 30, 2005 and 2004, the sick and vacation benefits accrued was \$74,625 and \$60,830, respectively.

5. Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

II. DETAILED NOTES ON ALL FUNDS

A. **Property and Equipment**

A summary of changes in the Authority's capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 46,225	\$ 0	\$ 0	\$ 46,225
Capital assets, being depreciated				
Buildings	\$ 982,355	\$ 0	\$ 0	\$ 982,355
Buses	1,390,913	96,050	57,432	1,429,531
Other Vehicles	45,439	0	0	45,439
Bus and Garage Equipment	149,810	262	0	150,072
Office Equipment	64,620	4,144	0	68,764
Total capital assets, being depreciated	\$ 2,633,137	\$ 100,456	\$ 57,432	\$ 2,676,161
Less accumulated depreciation for:				
Buildings	\$ 452,350	\$ 49,219	\$ 0	\$ 501,569
Buses	876,913	160,103	57,432	979,584
Other Vehicles	30,801	5,165	0	35,966
Bus and Garage Equipment	107,333	11,357	0	118,690
Office Equipment	45,878	5,931	0	51,809
Total accumulated depreciation	\$ 1,513,275	\$ 231,775	\$ 57,432	\$ 1,687,618
Total capital assets, being depreciated, net	\$ 1,119,862	\$ (131,319)	\$ 0	\$ 988,543
Business-type activities capital assets, net	\$ 1,166,087	\$ (131,319)	\$ 0	\$ 1,034,768

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Major classes of property and equipment consist of the following:

	PURCHASED WITH AUTHORITY FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land and Buildings	\$ 291,533	\$ 737,047	\$ 1,028,580
Buses	58,037	1,371,494	1,429,531
Other Vehicles	20,661	24,778	45,439
Bus and Garage Equipment	57,152	92,920	150,072
Office Equipment	28,061	40,703	68,764
	\$ 455,444	\$ 2,266,942	\$ 2,722,386
Less Accumulated Depreciation	(260,662)	(1,426,956)	(1,687,618)
NET PROPERTY AND EQUIPMENT	\$ 194,782	\$ 839,986	\$ 1,034,768

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

B. Receivables

Receivables as of year end for the Authority are as follows:

Receivables	
Interest	\$ 32
Accounts	16,885
Total Receivables	\$ 16,917

The allowance for doubtful accounts is not considered to be material for disclosure.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

C. Property Taxes

The Authority levies a voter-approved, county-wide property tax at the rate of .4000 of one mill. The voters granted the authority to levy .4000 of one mill for 2002, 2003, 2004 and 2005 tax rolls. Property taxes attach as an enforceable lien on the property as of the date they are levied. The taxes are levied and due December 1, and become delinquent after February 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period. The taxes are recognized as revenue in the year in which payment is collected. Wexford County has a tax revolving fund which allows the County to pay off the real property taxes which have been returned delinquent.

D. Deposits and Investments

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Authority's cash requirement.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2005, the carrying amount of the Authority's deposits was \$202,803 and the bank balance of \$208,439 of which \$175,078 was covered by federal depository insurance and \$33,361 was uninsured and uncollateralized.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At year end the Authority held no investments.

E. Contingencies

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2002, 2003 and 2004, either have not commenced or have not been completed.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Authority carries commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this coverage in any of the past four fiscal years.

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

H. Concentration of Credit Risk

For the fiscal year ended September 30, 2005, the Authority was reimbursed by the State of Michigan for 38.437574823% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the State. Therefore, the percentage will be recalculated after total eligible operating expenses are determined based on audited figures.

I. Employee Retirement System

For the year ended September 30, 2000, the Cadillac-Wexford Transit Authority began contributing to the Municipal Employees Retirement System of Michigan (MERS).

Plan Description. Substantially all full-time employees of the Authority are members of the **Municipal Employees Retirement System of Michigan (MERS)** which provides retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer pension plan. Act No. 427 of the Public Acts of 1984, as amended, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case, the authority rests with the Cadillac-Wexford Transit Authority. The MERS issues a publicly available financial report that includes statements and required supplementary information for MERS. That report may be obtained by writing to The Retirement Board, Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy. MERS members are not required to make any contributions to the plan. The Authority is required to contribute at an actuarially determined rate; the current rate is 11.44% to 21.73% of annual covered payroll depending on division of employees.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

I. Employee Retirement System

Annual Pension Cost. For the years ended September 30, 2005 and 2004, the annual pension cost was \$57,172 and \$48,750.

THREE-YEAR TREND INFORMATION FOR MERS

FISCAL YEAR ENDING	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
9/30/03	54,352	100%	0
9/30/04	48,750	100%	0
9/30/05	57,172	100%	0

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

<u>OPERATING REVENUES</u>	<u>2005</u>	<u>2004</u>
Fares	\$ 233,577	\$ 241,368
Greyhound and Indian Trail Commissions	8,891	9,027
Other	5,089	471
	<u>\$ 247,557</u>	<u>\$ 250,866</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2005			
	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Drivers and Dispatchers	\$ 411,952	\$ 0	\$ 0	\$ 411,952
Agents	21,200	0	0	21,200
Maintenance	0	53,141	0	53,141
Administration	31,650	31,945	154,660	218,255
Fringe Benefits				
FICA	35,285	6,367	10,682	52,334
Unemployment Taxes	7,870	925	926	9,721
Retirement	26,253	11,216	31,725	69,194
Group Insurance	58,231	28,981	15,631	102,843
Workers' Compensation	49,684	6,696	1,131	57,511
Uniforms and Other	14,728	881	1,906	17,515
Services				
Professional	7,440	0	40,404	47,844
Maintenance	0	28,003	0	28,003
Materials and Supplies Consumed				
Fuel and Lubricants	105,388	0	0	105,388
Tires and Tubes	4,803	0	0	4,803
Other Materials and Supplies	4,348	59,436	8,155	71,939
Utilities	19,586	0	7,782	27,368
Casualty and Liability Costs	55,316	0	8,884	64,200
Miscellaneous Expenses				
Advertising/Promotion Media	0	0	2,043	2,043
Dues and Subscriptions	0	0	1,930	1,930
Travel and Meetings	5,298	297	2,896	8,491
Depreciation	214,487	11,357	5,931	231,775
	<u>\$ 1,073,519</u>	<u>\$ 239,245</u>	<u>\$ 294,686</u>	<u>\$ 1,607,450</u>

	2004
	<u>TOTAL</u>
	<u>SYSTEM</u>
\$	388,133
	19,984
	50,190
	183,023
	48,336
	9,392
	59,406
	84,342
	47,197
	20,574
	58,562
	29,418
	77,656
	10,132
	72,583
	25,516
	82,418
	5,885
	1,910
	7,851
	<u>230,005</u>
\$	<u>1,512,513</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2005</u>	<u>2004</u>
<u>LOCAL SOURCES</u>		
Tax Levy	\$ 312,314	\$ 288,361
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Bus Operating Assistance (Act 51)		
Prior Year Adjustment - 1999	\$ 0	\$ (7,571)
Prior Year Adjustment - 2000	16,195	0
Prior Year Adjustment - 2001	1,334	0
2004	0	555,204
2005	540,887	0
Project Zero - Prior Year Adjustment	0	(3,602)
Total State Sources	\$ 558,416	\$ 544,031
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Contract No. 02-0023/Z11	\$ 173,722	\$ 0
Contract No. 02-0023/Z7	0	143,268
Rural Transit Assistance Program	2,668	2,505
Total Federal Sources	\$ 176,390	\$ 145,773
<u>OTHER</u>		
Interest Income	\$ 2,930	\$ 4,027
Gain on Sale of Assets	400	19,269
Total Other	\$ 3,330	23,296
TOTAL NONOPERATING REVENUES	\$ 1,050,450	\$ 1,001,461

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF FEDERAL AND STATE GRANTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

<u>OPERATING ASSISTANCE</u>	DUE FROM (TO) STATE 10-1-04	ADJUSTMENTS	EARNED
Operating Assistance			
2000	\$ 19,822	\$ 16,195	\$ 0
2001	(1,283)	1,334	0
2002	9,164	0	0
2003	9,431	0	0
2004	86,589	0	0
2005	0	0	540,887
	<u>\$ 123,723</u>	<u>\$ 17,529</u>	<u>\$ 540,887</u>
Federal Section 5311			
01-0018	\$ (7,633)	\$ 0	\$ 0
02-0023/Z2	(3,322)	0	0
02-0023/Z5	16,779	0	0
02-0023/Z7	31,902	0	0
RTAP-03/04	2,175	(162)	0
RTAP-04/05	0	0	2,668
02-0023/Z11	0	0	173,722
	<u>\$ 39,901</u>	<u>\$ (162)</u>	<u>\$ 176,390</u>
Total Operating Assistance	<u>\$ 163,624</u>	<u>\$ 17,367</u>	<u>\$ 717,277</u>
<u>CAPITAL GRANTS</u>			
02-0023/Z9	\$ 0	\$ 0	\$ 91,019
02-0023/Z4	0	0	3,898
02-0023/Z6	70	0	913
02-0023/Z10	4,464	0	0
Total Capital Grants	<u>\$ 4,534</u>	<u>\$ 0</u>	<u>\$ 95,830</u>
TOTAL FEDERAL AND STATE GRANTS	<u>\$ 168,158</u>	<u>\$ 17,367</u>	<u>\$ 813,107</u>

RECEIVED NET OF (REPAYMENTS)	DUE FROM (TO) STATE 9-30-05
\$ 0	\$ 36,017
0	51
0	9,164
0	9,431
0	86,589
<u>434,076</u>	<u>106,811</u>
 \$ 434,076	 \$ 248,063
 \$ (7,633)	 \$ 0
(3,322)	0
7,633	9,146
10,124	21,778
2,013	0
492	2,176
<u>107,583</u>	<u>66,139</u>
 \$ 116,890	 \$ 99,239
 \$ 550,966	 \$ 347,302
 \$ 91,019	 \$ 0
3,898	0
983	0
<u>4,464</u>	<u>0</u>
 \$ 100,364	 \$ 0
 \$ 651,330	 \$ 347,302

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>RTAP</u>	<u>OPERATIONS</u>	<u>TOTAL</u>
Labor	\$ 0	\$ 704,548	\$ 704,548
Fringe Benefits	0	309,118	309,118
Services	0	75,847	75,847
Materials and Supplies	0	182,130	182,130
Utilities	0	27,368	27,368
Casualty and Liability Costs	0	64,200	64,200
Miscellaneous Expenses	2,668	9,796	12,464
Depreciation	0	231,775	231,775
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	\$ 2,668	\$ 1,604,782	\$ 1,607,450

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	FEDERAL SECTION 5311 PROJECT NO. 02-0023/Z11	STATE OPERATING ASSISTANCE (ACT 51)
Operating Expenses		
Labor	\$ 704,548	\$ 704,548
Fringe Benefits	309,118	309,118
Services	75,847	75,847
Materials and Supplies	182,130	182,130
Utilities	27,368	27,368
Casualty and Liability Costs	64,200	64,200
Miscellaneous Expenses	9,796	9,796
Depreciation	231,775	231,775
Total Expense	\$ 1,604,782	\$ 1,604,782
Less Ineligible Expenses		
Depreciation	\$ 196,949	\$ 196,949
Expenses Previously Reimbursed	650	650
Audit Fees	6,200	0
Total Ineligible Expenses	\$ 203,799	\$ 197,599
NET ELIGIBLE EXPENSES	\$ 1,400,983	\$ 1,407,183
Federal		
Section 5311 Reimbursement (12.40%)	\$ 173,722	
State Statutory Operating Assistance		
38.437574823% of Net Eligible Expenses		\$ 540,887
But at Least a Minimum of Its:		
1997 Floor of \$300,361		

CADILLAC-WEXFORD TRANSIT AUTHORITY
(A Component Unit of Wexford County)
CADILLAC, MICHIGAN

SCHEDULE OF MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2005

(UNAUDITED)

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2005. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

<u>DEMAND-RESPONSE</u>	<u>TOTAL PUBLIC TRANSPORTATION MILEAGE</u>
Quarter Ended:	
December 31, 2004	104,630
March 31, 2005	105,940
June 30, 2005	111,935
September 30, 2005	<u>118,722</u>
 TOTAL	 <u>441,227</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

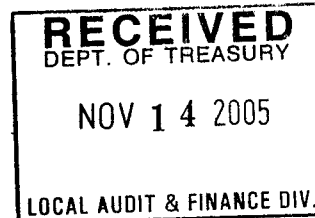
JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

October 12, 2005

Cadillac-Wexford Transit Authority
Cadillac, Michigan

Dear Board Members:



We have completed our audit of the Cadillac-Wexford Transit Authority financial statements, and are communicating to you our comments and recommendations for the year ended September 30, 2005. The following comments and recommendations are to be reviewed and considered when the Authority is implementing organizational and procedural changes.

I. Reportable Condition on Internal Control

During the course of our audit of the financial statements of the Cadillac-Wexford Transit Authority, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements:

- (a) The relatively small number of people involved in the accounting functions of the Transit Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties, and we note this item here only to maintain the Board's awareness of this limitation in their internal controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

The foregoing is a communication which is required by Statement of Auditing Standards Number 60. We realize, however, that it might not be financially cost effective for the Authority to establish a larger accounting staff to allow implementation of additional segregation of duties.

II. State Operating Assistance

The state operating assistance revenue is calculated using a reimbursement rate provided by the Michigan Department of Transportation. This rate is based on estimated expenditures by Transit Authorities throughout the State. When the state receives the final expenditure reports from each transit, they adjust the reimbursement rate to reflect available funds. For the 2004-2005 year, the Transit Authority is expected to receive 38.4376% of eligible expenses. When the distribution is completed based on actual eligible expenses, the reimbursement rate could be adjusted lower.

We wish to thank the Board for their continued confidence in our firm, and the administration and staff for their cooperation and assistance in helping us complete this engagement. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.